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VOL. CLIII NO. 93 Thursday, May 12, 1988

Today

The issue of banks underwriting their own asset-backed securities is on the front burner again, with the focus now shifting to state-chartered member banks and their regulators.2

Chief financial officers at commercial banks are paid less and work longer hours than their counterparts at other companies, according to a study by Heidrick and Struggles, the Chicago-based executive search firm. CFOs of banks received an average of $231,000 in cash compensation in 1987, compared to a $330,000 average for diversified financial companies and a $292,000 average for the entire sample of CFOs. 2

The Justice Department's decision to drop the investigation of House Banking Committee Chairman Fernand J. St Germain seems unlikely to affect either the politics or legislative output of the banking panel. 2

Charles J. Koch, the new chairman of the National Council of Savings Institutions, predicted that taxpayer funds would be used to bail out the insolvent FSLIC. 2

A smart card that may replace paper travelers checks is being created by the Thomas Cook Group. The travel company said it has commissioned SmartCard International to make prototypes of a plastic card with computerized memory that would keep track of purchases and itineraries for business travelers. 3

First-quarter profits at Columbia Savings and Loan Association fell to about $5.3 million, or 13 cents a share, from $98 million, or $2.60 a share, a year earlier. 12

After more than 20 years in banking, Richard Urfer has established his own corporate finance services firm. 16

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CONSUMER FINANCIAL SERVICES

Good-natured stabs at competitors and other humorous efforts took top honors among 1,400 entries in the 16th annual advertising awards of the Bank Marketing Association. 6

Daily newspapers are selling ad space in the middle of their stock market tables. The unusual position also offers an advertiser exclusivity — no other advertising can appear on the same page. 10

Closing a branch calls for care and attention to customers and staff, writes N.W. "Red" Pope in Marketing Management. 4

Worth Repeating

We haven't received the time of day . . . They're making no attempt to help us down here.

F. Hagen McMahon Jr. of the Independent Bankers Association of Texas on FDIC aid to small Texas banks. [Page 1]

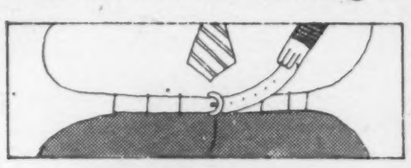
An American Banker Special Report

Regional Banks Step Up Cost-Cutting

By JOHN P. FORDE

Regional banks are preparing for a more competitive banking environment with a swarm of cost-cutting programs to stem growth in operating expenses, an *American Banker* study of annual reports shows.

Tactics include reducing staffs, combining computer systems, and building more efficient facilities.



Belt-Tightening

"Many banks have enacted aggressive restructuring programs in order to cut or control noninterest expenses," says Cheryl Swaim, a bank stock analyst at Oppenheimer & Co. The regional banking companies generally have held expense growth to less than 10% over the past year, she says, compared with faster expense growth at money center banks.

Annual reports indicate that regionals, many of which have been reporting double-digit increases in earnings over the past few years, are battening down their hatches in anticipation of tough times ahead.

Some regions, such as New England and the Southeast, are beginning to report increases in loan problems — especially in real estate lending. Analysts predict that increasing levels of nonperforming assets — combined with weak loan demand — may put regional bank earnings under some pressure over the next few years.

So far, however, the industry has not won raves for its success in containing costs. One of its most vociferous critics is J. Richard Fredericks, a bank stock analyst at Montgomery Securities, San Francisco.

In the first quarter, the 31 bank holding companies that Mr. Fredericks covers posted a 7.9% increase in noninterest expense from the year-ago quarter.

"Our cry for the industry to better control noninterest expense is falling on deaf ears," the analyst says in a recent

Regional: Page 15 ➤

Does FDIC Have a Big-Bank Bias?

Small Texas Institutions Think So and Consider Suit

By BARBARA A. REHM
Washington Bureau

WASHINGTON — Independent bankers in Texas say they are tired of being "too small to survive" and aren't going to take it any more.

The Texans are venting their frustrations against federal bank regulators, claiming they are unresponsive to small-bank needs. A growing number of bankers and state officials are considering suing the Federal Deposit Insurance Corp. and other regulators for discrimination by bank size.

Of last year's 184 bank failures, 50 occurred in Texas. So far this year, 23 banks in the Lone Star State have been closed under the weight of bad loans in real estate, energy, and agriculture.

During the same period, more than $2.6 billion in federal money from the FDIC flowed into Texas to prop up three big failing banks: First City Bancorporation of Texas, First RepublicBank Corp., and BancTexas Group. Only one small Texas bank — Crossroads Bank in Victoria — was kept open with FDIC cash.

FDIC Chairman L. William Seidman "thinks there are too many banks in Texas and Oklahoma, and he's going to close them," contends John Shivers, president of the $140 million-asset Southwest Bank, Fort Worth.

"They have virtually refused to do

Texas: Page 14 ➤

Check-Hold Rules Finalized by Fed Despite Protests

By YVETTE D. KANTROW

NEW YORK — The Federal Reserve Board Wednesday cleared the way for the implementation of rules requiring banks to make checking deposits available to customers within specified time limits. The rules take effect Sept. 1.

The Fed, as required by the Expedited Funds Availability Act, proposed regulations in December to limit the holds banks may impose on checks before allowing withdrawals. The public had 60 days to comment on the Fed's rules, known as Regulation CC.

At an open meeting in Washington on Wednesday, the Board of Governors adopted its original proposals with

Fed: Page 14 ➤

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Asset-Backed Underwriting Under Attack

By JED HOROWITZ

NEW YORK — Banks are once again on the firing line for underwriting securities backed by their own assets.

A suit filed against the Comptroller of the Currency over the issue has been pending for almost a year, but the focus is now shifting to state-chartered member banks and their regulators, according to banking and securities industry sources in Washington and New York.

"Some challenge to asset-backed public offerings by state banks is something that the SIA will seriously consider," said James Weidner, an attorney representing the Securities Industry Association.

The Federal Reserve Board, which oversees state-chartered member banks, has not ruled on the legality of underwriting asset-backed issues. But sources at the Fed hinted that they have been asked to render an opinion.

If Fed officials find that the activity violates the Glass-Steagall Act prohibition on public underwriting of securities, the asset-backed activity could grind to a halt. If they give their imprimatur to underwriting, the securities industry is likely to sue the Fed as it has done with the Comptroller.

Chemical Bank started the ruckus last month, when it helped sell $257 million of securities backed by payments on auto and light-truck loans that the bank originated. Chemical, which is chartered in New York and regulated by the Federal Reserve Board, was lead underwriter on the deal but did not officially ask the Fed for permission to underwrite.

Manufacturers Hanover Corp., another New York-chartered bank regulated by the Fed, recently registered a $350 million securities offering backed by its credit card receivables. Salomon Brothers Inc. is lead manager on the deal, but sources at the bank said Hanover will be comanager. The application is now being considered by the Securities and Exchange Commission.

Yesterday, Chemical again pushed the issue by helping to sell a $58 million public offering of senior mortgage pass-through certificates. It underwrote one-third of the deal, for which First Boston was lead manager.

"We're underwriting where legally permissible," said Robert R. Rupp, vice president and manager of the bank's residential mortgage product management group. He noted that the mortgages were all originated by Chemical. "Our lawyers felt comfortable that we can underwrite."

A few months earlier, however, Chemical stayed out of the underwriting syndicate when it issued $52 million of mortgage pass-through certificates. At the time, Mr. Rupp cited caution by the lawyers.

Sources said that before Chemical underwrote its auto-backed securities, Fed lawyers cautioned bank officials that the regulator had not ruled on the legality of the activity. Chemical did not disclose this warning in its offering prospectus. There appears to be no need for such disclosure from an investor-protection standpoint, said John C. Roycroft, assistant director of corporate finance at the Securities and Exchange Commission. But an official at the Securities Industry Association countered that the omission could be cited if a disgruntled investor decided to sue the bank.

Ironically, the asset-backed underwriting debate arose just when it seemed quiescent. Earlier this week, First National Bank of Chicago said it was comanager on a $300 million issue of securities backed by payments on its credit card advances. Advocates of

Underwriting: Page 14 ➡

Finance Chiefs Make Less at Banks: Study

By DAVID NEUSTADT

NEW YORK — Chief financial officers at commercial banks are paid less and work longer hours than their counterparts at other companies, according to a study by Heidrick and Struggles Inc., the Chicago-based executive search firm.

Bank chief financial officers received an average of $231,000 in cash compensation in 1987. That was substantially below the $330,000 average for diversified financial companies and the $292,000 average for the entire sample of chief financial officers.

The finance chiefs worked an average of 58.3 hours a week at banks, slightly more than the 57.9 hours averaged by the group as a whole. But 16.2% of the bank officials reported working more than 70 hours a week, compared with only 3.6% at financial companies and 9% from the entire sample.

Also, the bank chief financial officers averaged 19 hours a week in meetings, compared with 17.3 hours for the other two groups.

The bankers are the most dissatisfied about their long hours: 47.2% complain they don't have enough time for family, compared with 35.7% at financial companies and 31.3% among all those polled.

Heidrick and Struggles received survey replies from 340 *Fortune* 1000 companies, including 38 commercial banks and 28 diversified financial companies.

The survey results suggest that commercial banks are very conventional in their choices of chief financial officers. Bank chief financial officers were 70.3% Protestant, compared with 53.5% for the group as a whole. All the bank officers in the sample were white, and only one was a woman.

The bank officers were slightly younger; their mean age was 47 years, compared with 49.5 years for the entire group. They were more likely to be married to their first spouse, 94.4%, compared with 82.1% for the entire group.

Bankers do not move around much. Respondents have relocated only 1.3 times, compared with 2.7 times for the larger group. They have had fewer employers, 2.4 each, compared with 3 each for the entire sample. Bankers have worked for their current employer for 15.9 years, compared with 9 years for chief financial officers of financial companies and 13.5 for the whole group.

Despite their relative stability, the bankers are less likely to have a management contract. Only 24.3% of bankers have a contract, compared with 42.9% at financial companies and 33.2% among the whole group.

If they do have a contract, chief financial officers of banks are less likely to have a golden parachute. At banks the figure was 66.7%, among financial companies 100%, and 82.1% for the entire sample.

The search firm asked the chief financial officers to identify their major challenges. Generally, the bank officers shared the views of others in the group. Everyone named "employing top people" as the biggest challenge. But 20% of bankers saw "creating a comprehensive financial reporting system" as a major challenge, compared with only 7.5% at financial companies and 5.4% for the whole sample.

When asked to identify the key factors in their own success, bankers — along with everyone else — ranked hard work first. But the bankers thought "people" skills were less important, while decisiveness and luck were more important than other chief financial officers said. ■

What CFOs Are Paid

Ranges of cash compensation at commercial banks, compared with other firms, in 1987

	Commercial Banks	Diversified Financial Companies	Fortune 1000
Less than $150,000	29.0%	3.6%	12.6%
$150,000-$249,999	31.6	35.7	33.3
$250,000-$349,999	26.3	25.0	25.8
$350,000-$449,999	10.5	14.2	14.7
$450,000-$699,999	2.6	17.9	11.1
More than $699,999	0	3.6	2.5
Mean Pay	$231,000	$330,000	$292,000

Source: Heidrick and Struggles Inc.

Dismissal of St Germain Probe Lifts Cloud from Banking Panel

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — The Justice Department's decision to drop its investigation of House Banking Committee Chairman Fernand J. St Germain without seeking an indictment seems unlikely to affect either the politics or legislation of the banking panel.

"We had been hearing in the street for months that the investigation was over," said one bank industry lobbyist. "So it really doesn't have any great effect."

"If anything," said another close observer of the banking committee, "it enhances his power a bit."

Last August, the Justice Department began looking into allegations that the Rhode Island Democrat had accepted expensive gifts of food and entertainment from financial services industry lobbyists. Members of the House are prohibited from accepting gifts of more than $100 in a calendar year from people with an interest in legislation, although gifts of under $50 do not count toward the limit.

The Justice Department investigation followed a 14-month inquiry by the House Ethics Committee into allegations that Mr. St Germain had used his office for personal gain. That panel, after spending $300,000, produced a 1,405-page report that exonerated Mr. St Germain on all but some minor reporting violations.

Mr. St Germain, who has refused comment throughout the ethics panel and Justice Department investigations, issued a terse statement on Tuesday, saying he had been told by his lawyer that Justice was dropping its inquiry. "This means the case is closed," he said. His lawyer, Raymond Banoun, could not be reached for comment on Wednesday.

One lingering dark cloud for Mr. St Germain is the possibility of another investigation by the House Committee on Standards of Official Conduct, the formal name for the ethics committee.

In closing its case, the Justice Department turned its files over to the ethics panel, according to John Russell, a department spokesman. Material developed before the grand jury was not provided to the panel, Mr. Russell said. He said a court order would be necessary to secure the release of that material.

It was not possible to learn from the ethics committee whether it would resume deliberations on Mr. St Germain.

However, one knowledgeable congressional staff member, said it is unlikely the ethics committee will begin another investigation. "We're not going to spend another damn dime on this thing," he said, noting the $300,000 price tag on the last inquiry.

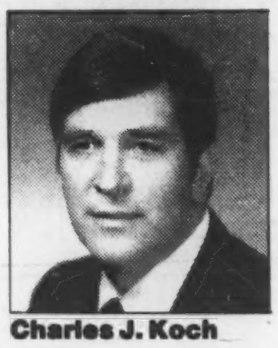
Still unknown is whether the allegations raised in the investigation will affect Mr. St Germain's bid for a 15th term in Congress or for a new term as chairman of the banking panel. It was known in 1986 that he was under investigation, however, and he still won reelection with 58% of the vote. He is expected to face a closer contest this time, in no small part because of the negative publicity from the investigations.

In 1987, when the 100th Congress organized, 70 Democrats voted against Mr. St Germain's reelection as banking committee chairman — a large number, considering he had no opposition. Working in his favor, say congressional sources, is the lack of a clear alternative to Mr. St Germain among the committee's most senior Democrats. ■

Taxpayer Funds Will Save FSLIC: Thrift Official

By JIM McTAGUE

TORONTO — The new chairman of the National Council of Savings Institutions predicted on Wednesday that taxpayer funds would be used to bail out the insolvent Federal Savings and Loan Insurance Corp.


Charles J. Koch

Charles J. Koch, in his inaugural address at the council's annual meeting here, also predicted that Congress would merge the FSLIC with the Federal Deposit Insurance Corp. "The reality is that FSLIC isn't going to make it with its current funds," he said. "Unfortunately, Congress and some trade groups haven't recognized this."

Regulators should be shutting down sick thrifts, not keeping them open, said Mr. Koch, president of the First Federal Savings Bank, Cleveland. He succeeds John T. Morgan, chairman of American Savings Bank, New York, an FDIC-insured institution.

The council's membership is dominated by New England savings banks.

Mr. Koch (pronounced "coke") said the cost of funds has been rising at his own FSLIC-insured institution, despite a downward trend in rates. "We have to begin to get Congress and the public to separate the sick institutions from the healthy," he said.

May 12, 1988, American Banker

How to Take the Sting Out of Branch Closings

By N.W. "RED" POPE

WHO WOULD ever have thought the day would come when we would be closing, streamlining, and consolidating branches? But the fact is that a variety of circumstances over the past decade have slowed, if not reversed, the trend of the Sixties and Seventies to expand anywhere that opportunity or "gut feel" suggested.

I recall that during my first years in banking, initially in North Carolina and then in Florida, opening a new branch was among the more challenging of marketing tasks. In fact, in North Carolina we opened an average of one branch every other month for 12 years!

Today, however, the cost of land, buildings, and equipment for new branches has made return on investment highly questionable. With new technologies that make possible a variety of delivery systems and with more methods to determine branch profitability, bank management is fast concluding that there may indeed be better and cheaper ways to serve customers.

Mr. Pope is senior vice president of marketing at Valley National Bank, Phoenix.

Pope Says:

The name of the game in closing a branch is care and attention to customers and staff. Employee morale is at stake. And service quality is an outgrowth of employee morale, good or bad.

As we continue to learn how to segment markets, to provide the products and systems customers want instead of the building and concepts we bankers have felt were appropriate, we face the fact that the cost of more mature facilities may no longer be justified. Plants are moved. Highways come through. Neighborhoods change. Businesses close. Demographics change, affecting the type of facility needed to serve the altered customer base.

Twenty years ago, human beings provided cash, accepted deposits, and made loans in a banking facility, but now we realize that a large percentage of our users would just as soon get cash from an ATM, borrow by telephone, write a check on a preauthorized credit line, and have their pay electronically deposited. It saves time, is simpler, and with new relationship pricing, could be cheaper for the customer as well.

So those of us with large branch networks must conclude that many of our older facilities are not serving customers as they once did. They are not providing the revenue streams of yesterday, and yet their operational and personnel costs rise. Also, we must build new branches in emerging markets to capture new business. That's an expensive, tough decision.

Certainly we do not wish to remove facilities that are critical to the financial well-being of a market area if there are no convenient alternatives for comparable services. And we do not want to lose good customers we have worked with for years.

One alternative is to reduce the number of people at the branch, reduce business hours, and perhaps relocate some servicing, such as lending to a "cluster," or hub, facility nearby.

Another possibility, which is palatable to many customers if there is another branch fairly close by, is consolidation. It means putting two branches together in a single facility to serve the overall market.

Whatever approach you take, there are numerous communications and marketing challenges to be aware of and to program for.

The principal audiences to be identified are, in order of importance: the customers, the employees, and the press.

Here is a brief checklist of questions to consider:

- When do you tell the customers? How do you explain what is taking place and where they will be served in the future? To what extent will they be inconvenienced, and what is the bank going to do about it?
- Will there be "premium" offers to relocated customers, such as free safe deposit boxes for a time or free checks, to keep their business? What will you use to placate them?
- Will there be any special promotion involving relocation? Are you going to make it a big deal in some significant and exciting way, or will you prefer to make the change as inconspicuously as possible?
- What about signage in the lobby and outside the branch, and maps showing the new home of the branch and other area branches?
- Will there be advertising of any sort? Direct mail to area businesses?
- Press releases in advance explaining what, when, and why? Visits to the press to discuss the matter and answer questions.
- How do you tell the staff what is going on and why? Where will they be reassigned? How will you assure them they will be taken care of? Who will handle this?
- Will there be a special promotion for staff to keep business that might leave, such as cash incentives for deposits retained?
- Do you have a system to ascertain, at certain periods up to a year after the consolidation, how much business was kept or lost and why?

Many banks believe a 5% loss is realistic. Some banks, with cash incentive plans for their branch staff, have kept a surprisingly large percentage of business. Many have learned that the branch manager must make personal calls on the largest depositors and borrowers. Having staff members telephone other good customers is a positive way to follow up the initial announcement of the change.

The staff must have a positive attitude about the move and demonstrate it to all customersin the period before relocation.This could be a very "down" time, but given the right atmosphere, with everyone understanding and believing the rationale behind the decision, some excitement and fun can be put into the project.

The staff in the new or alternative facility must be equally pumped up, welcoming their transferred customers as longtime friends. These customers must be given special treatment, with particular attention paid to their needs. Most people will accept change if it is pleasant, positive, and rewarding. That's the biggest role of the bank's employees as they manage this change.

The name of the game in closing a branch is care and attention to customers and staff who are affected. Employee morale is at stake. And service quality is an outgrowth of employee morale, good or bad.

Sooner or later, your bank may have to make the tough decision to close a branch. Marketing then plays a very important role in how well customers are treated and how much business is kept.

Determine your strategies far in advance. Get your tactics down pat. Produce a schedule of work and a timetable for each activity. Get a budget that will do the right job. This is not a time to save $100 and in so doing lose thousands of dollars in deposits or hundreds of good borrowers.

Closing, consolidating, and downsizing a branch is not as easy, or as much fun, as opening a new facility. The marketer, however, finds it is more of a challenge and more demanding professionally. More important, this is another of those times when skillful marketing can make a major difference in the end result. ■

Something to Say?

Please direct any comments you may have to the editor, William Zimmerman, American Banker, One State Street Plaza, New York 10004. Letters may be edited for reasons of space and clarity.

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FLASHBACKS

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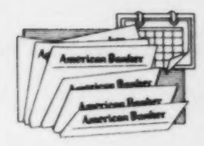

40 Years Ago

- Allan Sproul, president of the Federal Reserve Bank of New York, told a joint congressional committee that he did not believe the Federal Reserve needed additional powers to control inflation.

20 Years Ago

- Banks in the District of Columbia were charged with contributing to racial unrest by using a double standard in making loans to black applicants. In a report on April riots in the nation's capital, the city council said there was "substantial evidence indicating that the major local financial institutions, especially the banks, [used] a double standard in their credit policies . . ." Robert K. Koontz Jr., vice president of Security Bank in the District of Columbia, said "I have been in the banking business here since 1938, and I have never seen an application for a loan denied for that reason."
- Wachovia Bank and Trust Co. announced it would convert to a national charter. The Winston-Salem, N.C. bank said the switch was part of a reorganization in which it would become the major subsidiary in a one-bank holding company.

10 Years Ago

- Out of 20,500 employees eligible to do so, 226 minority and female employees or former employees of Crocker National Bank, San Francisco, filed job discrimination complaints under terms of a consent decree that ended a 1975 class action suit on behalf of 20,500 people who had worked for Crocker since 1973. Under the decree, employees had been given an April 15 deadline to file race or sex discrimination complaints. The decree in effect required each past or present employee to prove he or she was discriminated against before collecting any compensation.
- The Connecticut General Assembly failed to act on a bill that would have required all consumer contracts of $50,000 or less and all insurance contracts to be written in simple language. The measure required that every written contract use common words, avoiding such phrases as aforesaid, heretofore, and whereas. It called for the use of personal pronouns such as "I" and "you" instead of impersonal words or phrases such as "party of the first part." David Beizer of the Connecticut Bankers Association said the group supported "the concept of simple language," but said the bill had "a lot of problems." "I don't think that a simple language contract, like morals, can be legislated," he said.

5 Years Ago

- An American Banker survey showed that Citicorp chairman Walter B. Wriston became the first commercial banker to break the $1 million barrier in executive compensation. He earned $1,156,650 in salary and bonuses in 1982.
- The House of Representatives passed a bill authorizing $760 million in federal loans for jobless homeowners facing mortgage payment problems. The bill, which was opposed by the Reagan administration and by lenders, was considered a long shot for passage.

1 Year Ago

- Thomas A. Cooper resigned as president and chief operating officer of BankAmerica Corp., saying he wanted to "pursue other business interests." Sources at the bank, however, said they believed Mr. Cooper's decision was a result of clashes between himself and A.W. Clausen, who took over the No. 1 spot at the San Francisco bank in October.
- Calling home equity credit lines "land mines" threatening American home owners, consumer groups urged Congress to require lenders to disclose more information about loan terms and set caps on rate increases.
- The Securities Industry Association asked a New York appeals court to stay a Federal Reserve Board decision granting limited securities powers to three bank affiliates.

— Domenica Trevor